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#### **MEMORANDUM**

TO: Members of the Iowa Senate and

Members of the Iowa House of Representatives

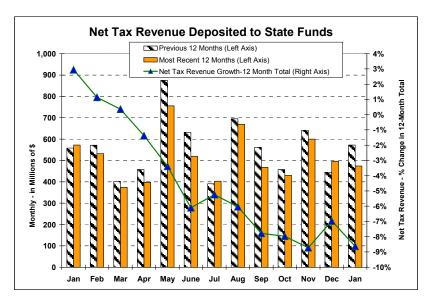
FROM: Jeff Robinson

Shawn Snyder

February 10, 2010 DATE:

## Twelve-month Total Net Tax Receipts Through January 31, 2010

The attached spreadsheet presents net State tax revenue deposited to State funds for the 12month period ending January 2010 with comparisons to the previous 12 months. January 2009 to January 2010 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



## **Month of January Comparison**

January net tax receipts totaled \$473.6 million, a decrease of \$98.4 million (- 17.2%) compared to January 2009. Major taxes and their contribution to the month's change include:

- Individual Income Tax (negative \$42.7 million, -13.4%) Gross income tax receipts
  decreased \$46.8 million in January while income tax refunds decreased \$4.1 million.
  Income tax estimate payments received, a component of gross income tax receipts,
  decreased \$30.4 million over the months of December and January.
- Sales/Use Tax (negative \$17.2 million, 14.9%)
  - Road Use Tax Fund use tax and fees for new registrations decreased \$5.8 million in January. The majority of the decrease was due to a change in how the Underground Storage Tank (UST) Fund is financed.
  - Other Fund use tax deposits increased \$4.3 million due to a change in how the UST Fund is financed.
  - o Gross General Fund sales/use tax receipts decreased \$10.8 million and refunds issued for the month increased \$4.9 million (net decrease of \$15.7 million).
- Corporate Income Tax (negative \$31.2 million, 66.7%) Gross corporate tax receipts decreased \$25.3 million and refunds increased \$5.9 million.
- Fuel Tax (positive \$3.6 million, 11.1%) Gross fuel tax revenue increased \$2.8 million while refunds processed in the month decreased \$0.8 million. Deposit timing issues may have provided a revenue boost to fuel tax receipts in January.
- Cigarette & Tobacco Taxes (negative \$3.8 million, 20.0%)
- Gambling Tax (negative \$4.1 million, 15.9%) Total adjusted gross revenue for lowa's 17 State-regulated gambling facilities decreased 3.8% in January 2010, compared to January 2009, and gambling tax revenue growth has now been negative for eleven consecutive months.

#### **Year-over-Year Comparison – Net Tax Revenue**

During the 12-month period ending January 2010, net revenue from all taxes deposited to State funds totaled \$6.120 billion, a decrease of \$578.1 million (- 8.6%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (negative \$239.8 million, 8.3%) The rate of individual income
  tax receipt growth has decreased significantly since peaking in May 2008 at 11.8% yearover-year. The processing of tax year 2008 tax returns during the spring of 2009
  accelerated the decrease as did the fourth calendar quarter estimate payment deposited
  in December and January.
- Sales/Use Tax (negative \$150.6 million, 6.7%) Net sales/use tax receipts have decreased for 11 of the past 14 months compared to the same month the previous year and the annual percent growth has fallen from positive 6.0% at the end of October 2008 to negative 6.7% at the end of January 2010.
- Corporate Tax (negative \$118.1 million, 36.9%) Net corporate income tax totaled \$202.0 million for the 12 months ending January 2010. The 12-month total peaked in June 2008 at \$371.9 million, so net corporate tax revenue is 45.7% below the latest peak. During and after the 2001 recession, net corporate tax receipts fell 68.8%, peak to trough.
- Fuel Tax (positive \$5.4 million, 1.2%) Net motor fuel tax revenue has been weak the past twelve months, likely the result of decreased economic activity caused by the

recession. According to Department of Revenue fuel sales reports, over the most recent 12-month period lowa taxable gasoline/ethanol gallons sold increased 2.0% while taxable diesel sales were down 6.6%, the fifteenth consecutive month showing a decline in annual taxable diesel sales. Taxable diesel sales over the most recent 12 month period were 10.5% below the March 2008 peak sales level.

- Gambling Tax (negative \$8.4 million, 2.9%) Despite expansions of casinos in Clinton and Dubuque, two changes providing boosts to year-over-year gambling growth in lowa; gambling tax revenue is negative over the past 12 months. According to Racing and Gaming Commission statistics, ten of lowa's seventeen casino/track locations reported negative annual adjusted gross revenue (AGR) growth for the 12-month period ending January 2010. The AGR growth for all facilities was negative 3.2% over the past 12 months. Excluding the two expanded facilities, growth was negative 5.4%.
- Cigarette and Tobacco Tax (negative \$24.3 million, 9.8%) Economic conditions, lowa's indoor smoking ban, and a recent increase in the federal cigarette tax are potential contributors to the tax revenue decline.
- Insurance Premium Tax (negative \$29.4 million, 27.1%) The decline in insurance
  premium tax revenue is the result of expanded use of tax credits, including credits earned
  through an insurance company's own activities as well as transferable tax credits
  purchased from others.

## **Tax Spotlight – Inheritance Tax**

The category of inheritance tax includes an inheritance tax, the qualified use inheritance tax, and the generation skipping transfer tax. The lowa estate tax was repealed during the 2008 Legislative Session.

The inheritance tax is imposed under the authority of Iowa Code Chapter 450. Tax rates range from 5.0% to 15.0% depending on the amount of inheritance and the relationship of the beneficiary to the decedent. To be subject to the tax the estate must exceed \$25,000 in value. Spouses were exempted fully from inheritance tax with the passage of SF 356 (Department of Revenue and Finance Tax Administration Act of 1991). Senate File 35 (Inheritance Tax Act of 1997) expanded the exemption to include all lineal ascendants and decedents.

The qualified use inheritance tax is imposed under the authority of Iowa Code Chapter 450B. A qualifying heir for federal tax purposes may forego inheritance tax on property used in farming or business if they maintain the business for up to 10 years. However, if the farm or business is sold to a non-relative prior to the 10 years, the heir may be required to pay inheritance tax.

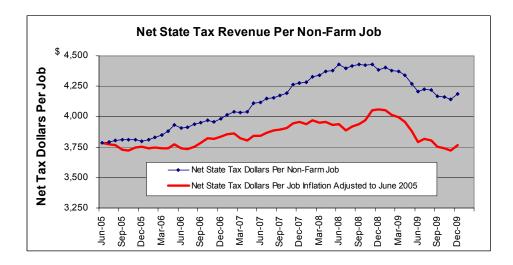
The lowa generation skipping transfer tax (Iowa Code Chapter 450A) is equal to the federal tax credit allowable for the State taxes paid. Currently the federal generation skipping transfer tax credit does not apply to estates of deceased persons who died after December 31, 2004, or before January 1, 2011, thus the State will not receive any revenue from the tax until the federal legislation sunsets (December 31, 2010, unless extended).

Prior to the repeal of the Iowa estate tax (SF 2350 – The Probate Omnibus Act), the tax was equal to the federal tax credit allowable for the State taxes paid. However, the federal estate tax credit did not apply to estates of deceased persons who died after December 31, 2004, thus the State had not received any revenue from the tax since FY 2006.

In most instances, inheritance tax returns must be filed and tax paid by the last day of the ninth month following the death of the decedent. Tax revenue from the inheritance tax is deposited in the State General Fund.

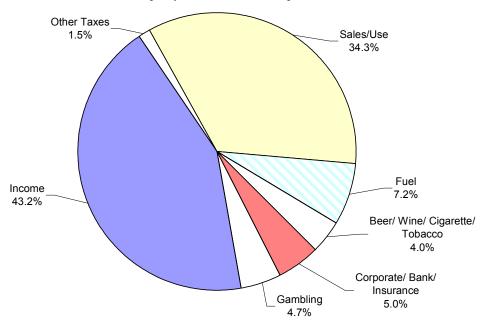
## **Tax Revenue and Employment**

The average reading for Iowa non-farm employment over the 12 months ending December 2009 is 1,485,200, and net State tax receipts over the same 12 months totaled \$6.218 billion, or \$4,187 per non-farm job. This is \$402 (10.6%) higher than the per-job average for the 12 months ending July 2005. Over that same time period, inflation (CPI-U) increased 11.0%. Therefore, tax revenue per job has trailed the rate of inflation since July 2005 by roughly 0.1% per year. The following chart provides a historical perspective of tax collections per non-farm job and inflation-adjusted collections per job.



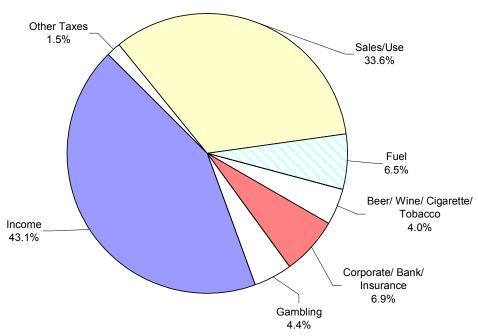
# Net State Tax Revenue - Twelve Months Ending January 2010 Net Revenue = \$6.120 Billion

Percentages may not add to 100% due to rounding



# Net State Tax Revenue - Twelve Months Ending January 2009 Net Revenue = \$6.698 Billion

Percentages may not add to 100% due to rounding



# **Net Tax Revenue Deposited to State Funds - Cash Basis**

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period		Most Recent 12-Month		12-Month		12-Month	Month of		Month of	January \$		January %
		Total	Period Total		\$ Change		% Change	January 2009	) J	January 2010		Change	Change
Banking	\$	31.8	\$	28.0	\$	- 3.8	-11.9%	\$ 3.0		1.7	\$	- 1.3	-43.3%
Beer & Wine		20.9		21.1		0.2	1.0%	2.0	)	2.0		0.0	0.0%
Cigarette & Tobacco		249.1		224.8		- 24.3	-9.8%	19.0	)	15.2		- 3.8	-20.0%
Corporate Income		320.1		202.0		- 118.1	-36.9%	46.8	}	15.6		- 31.2	-66.7%
Fuel		435.1		440.5		5.4	1.2%	32.3	}	35.9		3.6	11.1%
Gambling		293.2		284.8		- 8.4	-2.9%	25.8	}	21.7		- 4.1	-15.9%
Individual Income		2,885.9		2,646.1		- 239.8	-8.3%	319.7	,	277.0		- 42.7	-13.4%
Inheritance		79.7		68.3		- 11.4	-14.3%	6.4	Ļ	4.9		- 1.5	-23.4%
Insurance		108.3		78.9		- 29.4	-27.1%	0.2	<u>-</u>	0.1		- 0.1	-50.0%
Other Taxes		5.0		10.1		5.1	102.0%	- 0.3	}	- 0.1		0.2	
Real Estate Transfer		16.3		13.3		- 3.0	-18.4%	1.5	5	1.2		- 0.3	-20.0%
Sales/Use		2,252.9		2,102.3		- 150.6	-6.7%	115.6	ò	98.4		- 17.2	-14.9%
Total Net Taxes	\$	6,698.3	\$	6,120.2	\$	- 578.1	-8.6%	\$ 572.0	\$	473.6	\$	- 98.4	-17.2%
Gross Tax & Refunds													
Gross Tax	\$	7,655.5	\$	7,411.7	\$	- 243.8	-3.2%	\$ 633.9	\$	541.8	\$	- 92.1	-14.5%
Tax Refunds	\$	- 957.3	\$	- 1,291.4	\$	- 334.1	34.9%	\$ -61.9	\$	- 68.0	\$	- 6.1	9.9%
Net Tax Receipts by Fund													
State General Fund (GF)	\$	5,735.9	\$	5,191.2	\$	- 544.7	-9.5%	\$ 492.7	\$	397.2	\$	- 95.5	-19.4%
Road Use Tax Fund	\$	707.4	\$	692.4	\$	- 15.0	-2.1%	\$ 56.4	\$	54.3	\$	- 2.1	-3.7%
Non-GF Gambling	\$	231.3	\$	217.2	\$	- 14.1	-6.1%	\$ 25.5	5 \$	21.5	\$	- 4.0	-15.7%
Other State Funds	\$	23.5	\$	19.4	\$	- 4.1	-17.4%	\$ - 2.7	\$	0.8	\$	3.5	
Local Option Taxes *	\$	750.3	\$	794.7	\$	44.4	5.9%	\$ 52.9	\$	61.0	\$	8.1	15.3%

<sup>\*</sup> Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above. Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

#### Tax Categories Used in Table

Franchise (Bank) Tax: Taxes on banks are deposited to the State General Fund. State credit union tax is included on this line also.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited to the State General Fund, the Liquor Control Fund, and a small amount is deposited to a Department of Economic Development fund for wine promotion.

Cigarette & Tobacco Tax: Cigarette and the tobacco products tax revenue is deposited to the State General Fund.

Corporate Income Tax: All corporate tax is deposited to the State General Fund.

**Motor Vehicle Fuel Tax:** All motor vehicle fuel tax is deposited to one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** The first \$6.0 million of gambling tax revenue each fiscal year is deposited to the State General Fund (increased to \$66.0 million beginning FY 2010). Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the Gambler's Assistance Fund, the County Endowment Fund, and the Vision Iowa Fund.

**Individual Income Tax:** Most individual income tax revenue is deposited to the State General Fund. A total of \$4.0 million per year is deposited to the Workforce Development Fund (\$4.0 million). An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited to a State fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited to the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited to the State General Fund.

**Other Taxes:** Other taxes include brucellosis eradication property tax (deposited to a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

**Real Estate Transfer Tax:** Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 95.0% to the State General Fund and 5.0% to the Shelter Assistance Fund. The distribution of real estate transfer tax revenue changes beginning FY 2010, when the State General Fund percentage begins a decline to 65.0% by FY 2015.

**Sales/Use Tax:** General sales/use tax is deposited to the State General Fund, while most vehicle use tax is deposited to the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax was converted to a fee structure. To allow continuity of data, revenue from the fee structure is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted as part of the net sales/use tax calculation.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Starting FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

#### **Report Database**

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.